

FISCAL NOTE

HB 3906 - SB 3942

March 23, 2006

SUMMARY OF BILL: Repeals the state sales tax on food and food ingredients.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues – Exceeds \$429,300,000

Decrease Local Govt. Revenues – Exceeds \$15,400,000

Assumptions:

- According to the Department of Revenue, taxable sales of food and food ingredients in Tennessee during FY04-05 were \$7.4 billion.
- Growth of taxable sales for food and food ingredients is estimated to be 2.5% per year.
- Taxable sales (adjusted for growth) for food and food ingredients in Tennessee are estimated to be \$7.77 billion for FY06-07.
- Currently, the state sales tax rate on food and food ingredients is 6%.
- State sales tax revenue from food and food ingredients for FY06-07 is estimated to be \$466.2 million ($\$7.77 \text{ billion} \times 6\% = \466.2 million).
- Current law appropriates 4.4194% of state sales tax revenue to the municipalities within Tennessee.
- Eliminating the state sales tax on food and food ingredients will reduce local government revenues in FY06-07 by an amount estimated to be \$20.6 million ($\$466.2 \text{ million} \times 4.4194\% = \$20,603,242$).
- Eliminating the state sales tax on food and food ingredients will reduce state revenues in FY06-07 by an amount estimated to be \$445.6 million ($\$466.2 \text{ million} - \$20.6 \text{ million local share} = \$445,600,000$).
- 50% of consumer tax savings will be spent on other non-food sales taxable items in Tennessee at the current state rate of 7% and at a local option rate that averages 2.25%.

- The state would realize offsetting increases in sales tax revenue estimated to be \$16.3 million for FY06-07 ($\$466.2 \text{ million} \times 50\% \times 7\% = \$16,317,000$)
- Local governments would realize offsetting increases in sales tax revenue estimated to be \$5.2 million in FY06-07 ($\$466.2 \text{ million} \times 50\% \times 2.25\% = \$5,244,750$).
- The aggregate net decrease to state revenues is estimated to exceed \$429.3 million in FY06-07 ($-\$445.6 \text{ million} + \$16.3 \text{ million} = -\$429,300,000$).
- The aggregate net decrease to local government revenues is estimated to exceed \$15.4 million in FY06-07 ($-\$20.6 \text{ million} + \$5.2 \text{ million} = -\$15,400,000$).
- This act shall take effect on July 1, 2006.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director